5 Financial Management in the Events Industry

In this chapter you will cover:

- The principles of financial management
- The regulatory framework of accounting
- Understanding financial statements
- The budgeting process for event managers

The aim of this chapter is to provide clear-cut explanations of accounting terms for event managers/businesses, enabling you to familiarise yourself with the financial management process. Financial management effectively controls growth and should be carried out by event organisations for the protection of creditors and shareholders and to keep the company in business. Finance is at the centre of every business and at the heart of management; it is concerned with everything to do with obtaining money for an organisation and recording and controlling how that money is being spent.

The most important point to remember for event managers, even if you have no direct responsibility for managing financial resources, is to be aware of the financial procedures that are used in your organisation, particularly for those items which cost money or which generate cash for the business. The chapter also discusses the budgeting process for event managers to understand in order to manage the financial activities of organisations.

The principles of financial management

Financial accounts are concerned with classifying, measuring and recording the transactions of a business. At the end of a period (typically a year), financial statements are prepared to show the performance and position of the business, through the systematic recording, reporting and analysis of its financial transactions.

Traditionally, finance is split into four major accounting disciplines which will be discussed in depth below.

Financial accounting

Financial accounting is a technique which involves recording the results and financial position of a business. Financial accounting reports on how the organisation has performed in the previous accounting period or year. The information is based on what has already happened. It is only concerned with summarising the historical data that has been collected over the year. Financial accounting is mainly concerned with financial reports which are produced at the end of each period for external users and shareholders.

Management accounting

Management accounting provides information to managers for day-to-day decision-making, as well as for short- and long-term planning. Management accounting produces detailed information for each department; it is also responsible for preparing budgets and helping the managers and board to set prices for their products.

Financial management

Financial management is a method used to analyse the future for management and to help managers make better long-term decisions for the organisation. In addition, it helps the management decide where to obtain money and choose the best options for the use of the monies available to an organisation.

Auditing

Auditing is an evaluation process for organisations to maintain quality control and also provide an assessment of an organisation's internal control. The generic definition of an audit is an assessment of a system, process, product and business. The role of the auditor is to carry out the financial audit as a part of the investigation. The purpose of the audit, which is designed by the law-making bodies, is to determine whether financial statements which are produced by companies are fairly presented in accordance with International Financial Reporting Standards (IFRS), Generally Accepted Accounting Principles (GAAP) or by the individual countries' own legal requirements.

In the UK the audit is carried out under the Companies Acts 1985, 1989 and 2006. The annual accounts of a limited company must be audited by a person independent of the company. In theory, the company should appoint chartered or certified accountants to carry out an annual investigation of accounts prepared by the company.

Each year the auditor will investigate the accounts prepared by the company. He or she will then complete a report explaining the work that has been done and noting whether or not the accounts show a 'true and fair view' of the company's performance. If the auditor agrees with the annual accounts, he or she will state that the work has been carried out according to the auditing standards as laid out in the Companies Acts. If in the auditor's opinion the accounts show a true and fair view, this is called an **unqualified audit report** (in other words it is a clean report). If the auditor disagrees with the company's board of directors in the preparation of the company's accounts, it is the responsibility of the auditor to ask the company's board of directors to make changes and report to shareholders at the annual general meeting, setting out the concerns on which he or she has disagreed with the board of the directors. In accounting terms this is called a qualified report.

Under the Companies Acts, the auditor must investigate and compile his or her report on four key financial statements.

In addition, the auditor's report needs to be included as a part of the final annual accounts for the company. Therefore, it is also important that the auditor addresses the reports to the shareholders, not to the directors of the company or anybody else within the company.

The regulatory framework of accounting

In the UK the preparation of financial accounts is governed by the Companies Acts 1985, 1989 and 2006, particularly for limited companies. The UK has its own national financial reporting authority, the Accounting Standards Board (part of the Financial Reporting Council) that issues financial reporting standards.

■ Company law

Company law provides the legal framework within which businesses operate in the UK. The Companies Act 1985 brought together all the previous Acts. This Act was amended on the enactment of the Companies Act 1989. The Companies Act 2006 repeated certain parts of the 1985 and 1989 Acts and inserted new sections.

Limited companies are required by law to prepare financial accounts for each financial year for shareholders and other groups who are interested in accounts. Under the Companies Acts, financial accounts need to be registered with the registrar of companies and be available for inspection by any member of the general public. The published accounts need to be lodged with the registrar of companies within four weeks of the end of the financial year.

Limited companies are required to keep all accounting records and accounting files for each accounting period with Companies House. Under the Companies Act 2006, company directors are responsible for preparation of the accounts and ensuring that accounts are delivered to Companies House within the given time period. If accounts are not delivered on time, directors can be penalised for late submission.

The annual return which is submitted by the company is a snapshot of company information giving details of its annual financial activities and providing details of its chairman, directors, company secretary, registered office address, shareholders and share capital. Each year Companies House sends an annual return form to the company's registered address asking for any changes during the year to be noted, and that all details should be checked. The form needs to be signed off by the company secretary and returned within 28 days with a fee.

The legislation also requires directors to produce accounts which show a true and fair view of the company's accounts for the accounting period and which highlight the financial position at the end of the period. The board of directors needs to sign off the annual accounts, and the independent auditors then attach their report. The accounts are presented to the shareholders of the company at the annual general meeting. Once the accounts have been adopted by the members they are sent to Companies House for the registrar to file.

Accounting standards

In the UK, apart from company law, the key principles or regulations which affect accounting procedures are derived from guidelines issued by the professional accounting bodies. The accounting standards were devised in the UK and around the world due to the need to standardise the ways in which companies' accounts are measured. The accounting standards had the effect of narrowing the areas of difference between each company and standardising the preparation and presentation of accounts. This helped to eliminate deliberate manipulation of accounts and also served to enhance comparability between companies. The Accounting Standards Board (ASB) was set up in 1970 to crack down on the manipulation of published accounts that were being presented to shareholders. This was the first step taken by the UK government and professional accounting bodies to protect investors in the wake of accounting scandals. The ASB introduced Statements of Standard Accounting Practice (SSAPs) for companies to follow in 1973.

Following the recommendations of the Dearing Report in 1990, accounting standards are now governed by four accounting bodies (Figure 5.1). The Financial Reporting Council (FRC) took over the responsibility for financial accounting standards on 2 July 2012. Financial accounting standards were formerly developed by the ASB and are contained in Financial Reporting Standards (FRSs).

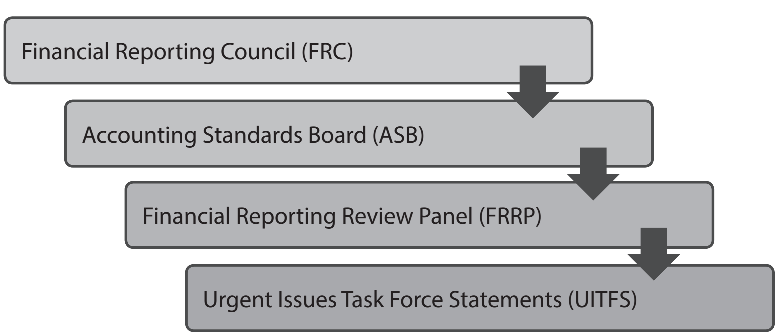

Figure 5.1: Accounting bodies